

AUDIT SUMMARY

Our audit of the State Board of Elections for the two-year period ended June 30, 1998, found:

- no material weaknesses in internal controls; however, we did identify several matters that we consider reportable conditions;
- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no instances of noncompliance that are required to be reported; and
- turnover in key management positions on the Board and its staff has delayed corrective action with respect to one previous year audit finding.

Our audit findings include the following reportable conditions, which are discussed in the section entitled, "Internal Control Findings and Recommendations."

- Complete a Comprehensive System of Information Security
- Maintain Control Over Cash Collections
- Improve Segregation of Fiscal Responsibilities
- Develop Procedures to Report Violations of the Campaign Finance Disclosure Act

- TABLE OF CONTENTS -

AUDIT SUMMARY

INDEPENDENT AUDITOR'S REPORT

AGENCY BACKGROUND AND FINANCIAL HIGHLIGHTS

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

BOARD MEMBERS

January 8, 1999

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Richard J. Holland
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **State Board of Elections** for the two-year period ended June 30, 1998. We conducted our audit in accordance with generally accepted government auditing standards.

Audit Objective, Scope, and Methodology

Our audit's primary objectives were to review the adequacy of the State Board of Elections' (the Board) internal control structure, test compliance with applicable laws and regulations, and evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Expenditures
Revenues and Cash Receipts
Fixed Assets

We obtained an understanding of the relevant policies and procedures for these internal accounting controls. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether policies and procedures were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Board's management has responsibility for establishing and maintaining an internal control structure and complying with applicable laws and regulations. The objectives of an internal control structure are to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are processed in accordance with management's authorization, properly recorded, and comply with applicable laws and regulations.

Our audit was more limited than would be necessary to provide an opinion on the internal control structure or on overall compliance with laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of the internal control structure to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Audit Conclusions

We found that the Board properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Board records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted matters involving the internal control structure and its operations that we considered to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Board's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. These reportable conditions are discussed in the section entitled, "Internal Control Findings and Recommendations." However, we do not believe that the reportable conditions are material weaknesses.

The results of our tests of compliance disclosed no instances of noncompliance that are required to be reported under generally accepted government auditing standards.

The Board has not taken adequate corrective action with respect to the previously reported finding listed below. Accordingly, we included this finding in the section entitled, "Internal Control Findings and Recommendations." The Board has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

Maintain Control over Cash Collections

EXIT CONFERENCE

We discussed this report with management at an exit conference held on March 12, 1999.

AUDITOR OF PUBLIC ACCOUNTS

JBS:pym
pym:22

AGENCY BACKGROUND AND FINANCIAL HIGHLIGHTS

The State Board of Elections supervises and coordinates the work of local voter registration officials (Registrars) and election officials (Electoral Board members) who register voters and conduct elections within their jurisdictions. Its statutory mission is to ensure statewide uniformity of voter registration and election procedures and legality in all elections.

The Board provides localities funding to pay the salaries and some expenses of the local Registrars and Electoral Board members. The Board also provides guidance, tests all voting equipment, qualifies candidates for nomination and election, and certifies election results.

Additionally, the Code of Virginia requires that the Board receives and catalogs all candidate and committee campaign finance report files. The Board then verifies that all reports are complete and submitted on time, assessing civil penalties for late, incomplete, or unfiled reports. The Board is currently implementing software that will enable them to accept reports through electronic means for statewide campaigns and expects to have system fully implemented by Spring 1999.

The Board maintains the state's voter registration records on an automated on-line system called the Virginia Voter Registration System (VVRS). The Department of Information and Technology (DIT) does the programming and maintenance of the VVRS and its database. DIT also maintains the network, which connects the Board and 135 local registrars to the mainframe. For fiscal 1998, 56 percent of Elections' operating expenses went to DIT for system maintenance services.

In 1998, the General Assembly had the State Board of Elections appoint a study committee to determine the best option for replacing VVRS. The study committee reported several different options to improve the VVRS and other agency systems. The study committee also recommended a second committee having members with a more technical background, to proceed with planning for replacing VVRS, if funding becomes available.

Finally, the Board is working with the Department of Motor Vehicles to improve the voter registration process implemented as a result of the *National Voter Registration Act of 1993*. Many of the improvements come from recommendations in a Joint Legislative Audit and Review Committee report issued in fall of 1998.

Financial Highlights

	<u>FY 98</u>	<u>FY 97</u>
Original appropriations	\$ 8,387,742	\$ 8,520,690
Adjustments	<u>(983)</u>	<u>335,515</u>
Adjusted appropriations	\$ 8,386,759	\$ 8,856,205
Less: Personal services	\$ 722,912	\$ 588,398
Transfers to localities	4,972,460	5,124,419
Operating expenditures	<u>2,687,340</u>	<u>3,136,975</u>
Unexpended balance	<u>\$ 4,047</u>	<u>\$ 6,413</u>

INTERNAL CONTROL AND COMPLIANCE FINDINGS & RECOMMENDATIONS

Complete a Comprehensive System of Information Security

As the Board moves to upgrade, integrate, and broaden the exchange of information, the Board needs to develop and implement a more global and comprehensive system of information security. The Board should use the tools outlined in the Council on Information Management Directive 95-1 to ensure adequate and appropriate levels of protection for the information technology resources under their control.

Using the Council on Information Management model, the Board can begin to address this issue by conducting and issuing a business impact and risk analysis, a contingency management plan, and a disaster recovery plan. The Board should utilize the results of these plans to develop and implement their information security system, providing official policies and procedures, as well as training for all levels of users. Furthermore, there is a need to review these analyses and plans on a regular basis to ensure there are appropriate safeguards on both existing and new systems.

The Board is considering several applications that may allow access to its information through the Internet. Should the Board elect to maintain its own Internet site and databases, it will need to consider physical and logical security. Physical security considerations are server location and protection and logical security includes firewalls, passwords, or other access considerations by both providers of information and users of the information.

Maintain Control over Cash Collections

The Board does not maintain adequate control over cash collections. From July to December 1997, no one recorded cash and checks in the cash receipts log. Additionally, after receipt, clerical staff physically receive the cash and checks for processing. This procedure delays receipts from reaching the fiscal office, subjecting them to excessive risk; and consequently preventing the Board from depositing receipts timely.

The Fiscal Officer should institute procedures that ensure the recording of all cash and checks in the cash receipts log, discontinue giving clerical staff physical access to the cash and checks, make daily deposits, and reconcile the deposit to the cash receipt log. These procedures will help reduce the risk of the loss or theft of cash and checks.

Improve Segregation of Fiscal Responsibilities

During the audit period, the Secretary and Deputy Secretary were ill, limiting their time in the office. As a result, there was a lack of oversight and an increase in job responsibilities placed on the Business Manager. With the Secretary's and Deputy Secretary's absence, the Business Manager also assumed extensive decision making authority. This situation, paired with the small size of the agency, leads to a significant impairment of intended segregation of duties.

The Board should reassess the current responsibilities of the Business Manager. To maintain proper internal controls, the Board should ensure that different individuals either perform or approve accounting functions. Furthermore, the Board should consider the workload of the Business Manager coupled with the need to have someone perform accounting functions in the absence of the Business Manager.

The Board may wish to consider a broad range of alternatives from having another agency process all of the accounting transactions to employing additional staff. Regardless of the alternatives considered, the Board will have ultimate responsibility for oversight of the accounting function, and therefore, should consider alternatives within this responsibility.

Develop Procedures to Report Violations of the Campaign Finance Disclosure Act

The Board does not have sufficient procedures to collect civil penalties assessed as a result of violations of the *Campaign Finance Disclosure Act*. Developing additional procedures to notify the appropriate Commonwealth's Attorney of Campaign Finance and Disclosure Act reporting violations would improve the likelihood of collection and bring the Board into compliance with the Code of Virginia, §24.2-928. The Board is implementing a software application to electronically receive and catalog Campaign Finance Reports. The Board should use this improvement to ensure the Commonwealth's Attorney receive all violations of the reporting requirements.

STATE BOARD OF ELECTIONS
Richmond, Virginia

BOARD MEMBERS

Pina Brooks Swift, Chairperson

Dr. George M. Hampton, Sr.

M. Bruce Meadows, Secretary

OFFICIALS

M. Bruce Meadows
Secretary

Audrey S. Piatt
Deputy Secretary